

Message Text

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ACTION XMB-07

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FOR EXIM BANK

USDOC -- PASS COPIES TO BIC -- MARY MANLEY AND T. J. JACKSON

USUN -- FOR AMBASSADOR CARTER

E.O. 11652: N/A

TAGS: EFIN, BEXP, TZ

SUBJECT: EXIMBANK LOAN TO TANZANIAN TEXTILE INDUSTRY

REF: (A) STATE 156832 (B) DAR ES SALAAM A-52 (C) DAR ES SALAAM 2496

1. PARA 3 OF REF (A) REQUESTED DISCUSSION OF TANZANIA'S BOP AND FOREIGN EXCHANGE SITUATION. PICTURE TODAY IS COMPLETE CONTRAST TO EARLY LAST WINTER WHEN FOREIGN EXCHANGE RESERVES ATTAINED ALL TIME HIGH OF \$125 MILLION (PLUS SDRS) AND DISCUSSION WAS HOW MANY MORE FOREIGN EXCHANGE CONTROLS COULD SAFELY BE RELAXED. SINCE THAT TIME IT HAS ALL BEEN DOWN HILL. RESERVES HAVE FALLEN AS ADDED ENERGY COSTS (PROJECTED TO BE 15 PERCENT OF 1974 FOREIGN EXCHANGE EARNINGS) AND HEAVY IMPORTS OF FOOD GRAINS (PROJECTED TO BE ABOUT 50 PERCENT OF FOREIGN EXCHANGE EARNINGS) COME IN TO COVER SHARPLY REDUCED
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HARVEST AS RESULT OF DOUGHT. THIS REQUIRED GOVERNMENT TO DRAW

HEAVILY ON FOREIGN RESERVES, CONVERT SDR'S AND CALL FOR IMF GOLD TRANCHE. GRAIN SHIPMENTS ARE STILL COMING IN AND WILL CONTINUE TO MAKE HEAVY DEMANDS ON FOREIGN EXCHANGE EARNINGS. SHIPMENTS SHOULD CONTINUE THROUGH LATE SUMMER 1975, BUT GOVERNMENT EXPECTS DURING NEXT YEAR THAT LOCAL PRODUCTION RECOVER FROM DROUGHT.

2. TANGOV PLAN FOR HANDLING BOP CRISIS MAY NOT WORK OUT SMOOTHLY AND MUCH DEPENDS -- AFTER THREE YEARS OF DECLINING RAINFALL -- ON WEATHER CONDITIONS NEXT YEAR. ONE ELEMENT SEEMS CERTAIN -- TANZANIA WILL HAVE FOREIGN EXCHANGE GAP OF \$175-200 MILLION THIS YEAR. THIS BEING PARTIALLY COVERED, AS NOTED PARA 1, BY HEAVY DRAW DOWN IN RESERVES. GOVERNMENT HAS NOW TURNED TO SEEKING BOP ASSISTANCE FROM FOREIGN AID DONORS. US LOOKS TO BE FORTHCOMING IN PROVIDING LOAN UNDER PL-480. IBRD LOAN, ONE OF SEVERAL BEING PUT TOGETHER FOR LDC'S HARDEST HIT BY DROUGHT AND ENERGY CRISIS, FOR \$30 MILLION NOW BEING NEGOTIATED. MANY OTHER AID DONORS ARE BEING APPROACHED AND, AS YET, DEGREE OF THEIR RESPONSIVENESS UNCLEAR.

3. IN CONSIDERING TANZANIA'S BOP CRISIS, WE INVITE BANK OFFICERS TO READ CONCLUDING PARAGRAPH OF REF (B) -- DRAFTED IN MARCH WHEN TRUE MAGNITUDE OF BOP DIFFICULTIES BEGAN TO SURFACE. THAT PARAGRAPH REFERS TO THE INTANGIBLE OF TANZANIA BEING ABLE TO DRAW ON DONOR GOODWILL TO COVER HEAVY DRAIN ON FOREIGN RESERVES. WE NOW HAVE HARD EVIDENCE THIS IS HAPPENING. LAST MONTH TANGOV PRESIDENT, WHEN HE FIRST BECAME FULLY AWARE OF SERIOUSNESS OF PROBLEM, WROTE PERSONAL LETTERS TO PM'S OF CANADA, SWEDEN AND GERMANY AND RECEIVED, ALMOST BY RETURN MAIL, CHECKS FOR OVER \$13 MILLION IN OUTRIGHT GRANTS. EXIM, WHEN CONSIDERING LOAN FOR TEXTILE MILL PROJECTS IN TANZANIA, SHOULD NOT OVERLOOK FACT THAT PRESIDENT NYERERE IS A PERSONABLE LEADER (ONE OF THE MOST RESPECTED AMONG LDC HEADS OF STATE) WITH A PROVEN RECORD OF FUND RAISING THAT WOULD MAKE HIM ENVY OF ANY IVY LEAGUE COLLEGE PRESIDENT. THERE IS LITTLE DOUBT THAT HE WILL BE SUCCESSFUL -- PARTICULARLY AMONG KINDRED SOCIALIST COUNTRIES OF NORTHERN EUROPE-- IN OBTAINING FUNDS TANZANIA NEEDS TO COVER BO PROBLEMS FEW LDC'S HAVE COMPARABLE STOCK OF GOODWILL TANGOV CAN DRAW DOWN IN TIME OF CRISIS.

4. THERE IS ALSO INTANGIBLE CREDIT WORTHINESS OF TANZANIA WHICH FLOWS FROM COMPETENCE OF TANZANIA'S FINANCIAL MANAGERS -- RANGING FROM MINISTER OF FINANCE MSUYA AND COMMERCE AND INDUSTRIES MINISTER LIMITED OFFICIAL USE

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JAMAL DOWNWARD WHO RECOGNIZE THE IMPORTANCE OF TANZANIA PAYING ITS DEBTS PROMPTLY AND FULLY. EXIM NEED ONLY REVIEW PARA 2 REF (C) FOR FRESH ILLUSTRATION OF HOW RESPONSIVE TANGOV BECOMES WHEN CREDIT STATUS ENDANGERED. TANGOV HAS ALWAYS BEEN COGNIZANT OF ITS INTERNATIONAL FINANCIAL OBLIGATIONS AND THERE IS NOTHING IN THE MAKEUP OR CHARACTER OF FINANCIAL LEADERS TO BELIEVE THIS BASIC TENET OF GOVERNMENT FINANCIAL POLICY WILL CHANGE.

5. EXIMBANK SHOULD ALSO NOTE TANGOV HAS PUT FORWARD GOOD BANKABLE PROPOSITION. EXPANSION OF TEXTILE INDUSTRY PROMOTES AN ECONOMICALLY SOUND IMPORT SUBSTITUTION INDUSTRY, BASED ON LOCAL RAW MATERIALS, WHICH IS VIABLE AND WELL CONCEIVED. TEXTILES, WE NOTE, IS MAJOR ITEM ON TANZANIA'S LIST OF IMPORTS. CARRIED FORWARD, EXPANSION PLANS ENVISAGE THE INDUSTRY AS A FOREIGN EXCHANGE EARNER OF SOME MAGNITUDE IN NEARBY KENYAN MARKET WHICH IS SO RIPE FOR PLUCKING. IF EVER TANGOV HAS WORKED UP SOUND INDUSTRIAL EXPANSION PROGRAM, THIS IS IT.

6. IMPORTANT FOR EXIM TO NOTE THAT TANGOV IMPLEMENTING AGENCY, TEXCO, IS READY AND WAITING TO PUT OUT TENDERS TO US SUPPLIERS. IN SHORT, WE ARE OUT IN FRONT ON THIS PROJECT AND, ACCORDING TO TEXCO MANAGING DIRECTOR RWEYEMAMU WHEN HE MET AMATEX PRESIDENT BALLARD JULY 25, ALL THAT IS NEEDED IS ASSURANCE OF EXIM LOAN TO GET MOVING QUICKLY TO AVOID FURTHER PRICE ESCALATIONS DURING PRESENT PERIOD OF SPIRALLING INFLATION. WE HAVE ALWAYS PRESSED THE POINT, WHEN PROMOTING US INTERESTS IN RESPECT TO TANGOV TEXTILE EXPANSION PROGRAM, US CAN MOVE FASTER THAN ANY COMPETITORS AND UNTIL NOW TANZANIANS HAVE BEEN AGREEABLY SURPRISED AT OUR SPEED. WE WISH TO KEEP THIS MOMENTUM GOING.

7. IN PARAS 1 AND 2 ABOVE WE HAVE EMPHASIZED APPARENT SHORT-RUN NATURE OF CURRENT BOP PROBLEMS FACING TANZANIA. NOTE THAT BY TIME DRAWDOWNS OF EXIM LOAN OCCUR AND GRACE PERIOD ELAPSES, CURRENT BOP PROBLEM NOW FACING TANGOV SHOULD BE WELL BEHIND IT. IT WOULD BE IRONIC IF US, HAVING ASSISTED TANZANIA IN COVERING BOP CRISIS WITH CONCESSIONAL PL-480 LOAN, DECLINES TO TAKE FINANCIAL RISK ON WHAT APPEARS TO US TO BE SOUND COMMERCIAL PROPOSITION. WE RECOGNIZE RISK BUT WE ALSO RECOGNIZE COMMERCIAL PAYOUT BEYOND TWO TEXTILE MILLS CURRENTLY UNDER CONSIDERATION. ENTIRE EMBASSY HAS WORKED LONG AND HARD TO GAIN LARGER POSITION IN TANZANIAN MARKET FOR US SUPPLIERS. TO A DEGREE, WE HAVE BEEN SUCCESSFUL BUT WE VIEW LIMITED OFFICIAL USE

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TEXTILE PROJECT FULCRUM TO FURTHER SUCCESSES -- TO CAPTURE THE IMAGE THAT WE ARE ACTIVELY AND VISIBLY INTERESTED IN THIS MARKET. TEXTILE MILL PROJECTS WILL BE EXIM'S FIRST EXPOSURE TO TANZANIA AND GIVEN QUALITY OF PROJECT AND UTILITY OF EXIM FINANCING AS VEHICLE TO PROMOTE US EXPORTS, WE FEEL THIS EXCELLENT INTRODUCTION TO TANZANIA FOR BANK.

8. FOREGOING, BY INTENT, SKIRTS LARGER PROBLEM OF LOANS TO ANY LDC'S OR LARGE ENERGY CONSUMING NATIONS DURING THIS PERIOD WHEN PETROLEUM EXPORTING COUNTRIES ARE ABOUT ONLY ONES ROLLING UP BOP SURPLUSES AND THERE IS WORLD-WIDE UNCERTAINTY REGARDING STRENGTH OF PRESENT MONETARY SYSTEM. WE ASSUME EXIM AND OTHER USG AGENCIES CONCERNED WITH PROMOTING EXPORT US PRODUCTS ARE LOOKING AT IMPACT OF ALL BOP PROBLEMS AND WHETHER WE SHOULD REIN IN OUR EXPORT PROMOTION EFFORTS. IT

SEEMS TO US THAT WE HAVE CHOICE OF PULLING BACK IN FACE OF
UNCERTAINTIES -- IN ESSENCE SUSPEND OUR COMMERCIAL
WORK OUTSIDE OF MAJOR CENTERS -- OR WE USE IT AS OPPORTUNITY TO TAKE
MAJOR POSITION IN MARKETS PREVIOUSLY RESTRICTED TO US. THIS IS AT
CORE OF ANY DECISION REGARDING TANZANIA'S APPLICATION FOR EXIM LOAN.
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